September 18, 2023

# Orbit Exports Limited: Ratings upgraded to [ICRA]A (Stable)/[ICRA]A1; rated amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long-term Fund-based - Term Loans** | 22.94 | 35.50 | [ICRA]A (Stable); Upgraded from [ICRA]A- (Stable); assigned for enhanced amount |
| **Long-term Fund-based - Cash Credit** | 23.75 | - | - |
| **Long-term / Short-term Fund-based – Cash Credit** | - | 30.00 | [ICRA]A (Stable)/[ICRA]A1; Upgraded from [ICRA]A- (Stable)/[ICRA]A2+; assigned for enhanced amount |
| **Short-term Non-fund based** | 0.25 | - | - |
| **Long-term/Short-term Unallocated Limits** | 9.99 | - | - |
| **Total** | **56.93** | **65.50** | |

**Instrument details are provided in Annexure-I*

## Rationale

The ratings upgrade of Orbit Exports Limited (OEL / the company) factors in its improved scale of operations along with healthy operating profit margin (OPM) in FY2023 and in Q1 FY2024, which is expected to sustain in FY2024 and FY2025. Despite the current prevailing demand headwinds in the export markets, particularly the western and European markets on the back of uncertain economic conditions, the company reported a 53% YoY growth with an all-time high revenue of Rs. 196 crore in FY2023. This was supported by the company's increased focus on the domestic market (which accounted for 40% of the revenues in FY2023 compared to 25-30% earlier) and a steady increase in orders from export markets. The revenue momentum has sustained in Q1 FY2024, with the company likely to close FY2024 with revenues of Rs. 200-220 crore. Aided by the benefits of operating leverage and the company's continued focus on the niche high value-added textiles segment, the OPMs have also improved and are likely to sustain in the range of 27-28% in FY2024. The ratings also factor in OEL's strong financial profile, marked by low gearing and comfortable debt coverage indicators as well as a healthy liquidity position. Moreover, the ratings factor in the extensive experience of the promoters of OEL in the textile industry and the company's established position in the niche value-added fabrics and made-ups.

The ratings, however, remain constrained by the working capital nature of its operations, as reflected by the net working capital vis-à-vis the operating income of 31% as on March 31, 2023 primarily due to its high inventory holding period. The company's profitability also remains susceptible to the foreign exchange fluctuation risks due to its export-dominated revenue profile, though hedging via forward contracts mitigates the risk to a large extent. The company's revenues and profitability are also exposed to global textile demand conditions and volatility in raw material prices.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that OEL's credit profile is expected to remain comfortable, supported by its established presence in the niche value-added textiles segment and increasing focus on the domestic markets. Along with limited capital expenditure (capex) plans, this will limit its dependence on external debt, translating into a continued strong financial profile.

## Key rating drivers and their description

### Credit strengths

**Extensive experience of promoters in the textile industry** – OEL was promoted as a private limited company in 1983 by Ms. Shailaja Asave and Mr. Shyamsunder Seth for fabric manufacturing. In 1994, the company was converted into a public limited concern. It is currently headed by Mr. Pankaj Seth and Ms. Anisha Seth, who acquired the company in 2004. The management has an experience of more than two decades in manufacturing and around three decades in exporting fabrics, which has enabled the company to establish itself in the domestic as well as international markets.

**All-time high revenues in FY2023; stable performance expected in FY2024 –** Despite the current prevailing demand headwinds in the export markets, particularly in the western and European markets owing to uncertain economic conditions, the company reported a 53% YoY growth with all-time high revenues of Rs. 196 crore in FY2023. This was supported by the company's increased focus on the domestic market, which accounted for 40% of the revenues in FY2023 compared to 25-30% earlier despite strong competition and a steady increase in orders from the export markets including Middle East, Southeast Asia, among others. The revenue momentum sustained in Q1 FY2024, with the company likely to close FY2024 with revenues of Rs. 200-220 crore.

**Healthy profitability indicators, marked by high contribution from value-added products** – OEL manufactures customised textiles that find application in high fashion garments, home furnishings, bridal wear and various festive fabrics, which are primarily high value-added products. This enables the company to charge a premium for its products. Further, a high proportion of sales is derived from in-house fabric manufacturing. These, along with the management's focus on high-margin commodities have enabled the company to report a healthy OPM in the range of 25-30% during the last five years (except in FY2021 when the OPM moderated to 18% due to the adverse impact of the pandemic). Given the company's continued focus on the niche high value-added textiles segment, the OPMs are likely to sustain in the range of 27-28% in FY2024.

**Strong financial profile** – OEL's financial profile is strong, marked by a low gearing of 0.1 times as on March 31, 2023 (compared to 0.2 times as on March 31, 2022) due to healthy net worth position. Its debt coverage indicators are robust, as reflected by an interest cover of 16.3 times and total debt vis-à-vis the operating profit of 0.6 times in FY2023 (compared to 1.4 times in FY2022). While the company was enjoying cash surplus position in the past, the capex incurred during FY2021-FY2023 led to an increase in the debt levels. Nevertheless, the overall financial profile is comfortable. Its liquidity position is also comfortable with cash and liquid investments of Rs. 34.4 crore and unutilised fund-based limits of Rs. 23.0 crore as on June 30, 2023.

### Credit challenges

**Demand headwinds prevailing in its key addressable export markets –** After witnessing a robust growth in Q1 FY2023, India's apparel exports faced headwinds due to uncertain economic conditions in its main export destinations. This may exert some pressure on the company's exports in the current fiscal and constrain its modest, albeit improving, scale of operations. ICRA however, draws comfort from the established position of the company in the niche and high value-added segments and increasing presence of the company's products in the domestic market and steady demand from the Middle East and Southeast Asia.

**Working capital intensive nature of operations** – The company's working capital intensity of operations, as reflected by the net working capital vis-à-vis the operating income, remained high at 31% as on March 31, 2023. This was primarily on account of its high inventory holding period. As the company manufactures various fabrics as per customer specifications and production is carried out in batches, it has a high finished inventory, resulting in increased working capital requirement. Also, as OEL routes a portion of its sales through Group companies (based out of the US and the UAE), where the credit period offered is higher, there is an elongation in the receivable cycle. However, ICRA notes that there are no delays in realisation of receivables from the Group companies. Going forward, timely liquidation of inventory remains critical from the credit perspective.

**Vulnerability of profitability to global textile demand conditions, volatility in foreign currency exchange rates and raw material prices; intense competition in the industry –** OEL's profitability remains susceptible to adverse movements in foreign exchange rates given that 60-70% of the revenues are derived from exports. However, the fact that the company has a hedging mechanism in place against foreign exchange fluctuations provides comfort to a certain extent. OEL's revenues and profitability also remain susceptible to the cyclicality in the global textile industry and volatility in the raw material prices. The textile industry is very competitive due to the fragmented nature of the market and low entry barriers. OEL mostly faces competition from international players. However, focus on a niche product segment has helped it partly mitigate the intense competition in the industry and pass on the raw material price hikes to its customers, supporting its profitability.

## Environmental and Social Risks

**Environmental risks:** The apparel industry is exposed to environmental risks, primarily through water, land use, impact of climate on production and post-consumer waste. While these risks have not resulted in material implications so far, policy actions towards waste management and the environmental impact such as to recycle the textile, could have cost implications for the companies. These apart, dyeing and processing of fabrics cause water pollution and result in significant generation of wastewater. OEL has implemented water treatment facilities at two of its manufacturing plants that enabled recycling of water, resulting in a reduction in water wastage. Nonetheless, any disruption in measures taken for appropriate treatment of wastewater/effluents could result in significant penalties, while also causing prolonged adverse impact to operations in case the authorities take any strict action.

**Social risks:** Being a labour-intensive segment, the entities operating in the garment sector are exposed to the risk of disruption due to inability to properly manage human capital in terms of their safety and the overall well-being. Measures taken by the company towards employee welfare has, however, resulted in no adverse impact on the company's performance from the above mentioned risks till date. Further, textile exporters are exposed to the risks of protests/conflicts with local communities. Besides, shortage of skilled workers could also affect operations/growth plans and remains key concerns. Entities also remain exposed to any major shift in consumer preferences or developments, affecting discretionary consumer spending in key markets.

## Liquidity position: Adequate

OEL's liquidity position is adequate, supported by free cash/bank balances of Rs. 34.4 crore (including current investment of Rs. 33.4 crore comprising fixed deposits and mutual funds) and cushion available in the form of undrawn working capital limits of Rs. 23 crore as on June 30, 2023. OEL's average utilisation of working capital limits during the 18-month period ended on June 30, 2023, stood at 43% (reflecting an average unutilised limit of Rs. 18 crore during the said period with adequate drawing power). The company has limited capex plans of Rs. 5 crore for FY2024 towards maintenance activities. OEL is expected to generate retained cash flows of Rs. 12.3 crore in FY2024 on the back of steady revenues and profitability. Against this, the company has term loan repayments of approximately Rs. 7.5 crore in FY2024, Rs. 8.0 crore in FY2025 and Rs. 7.9 crore in FY2026. Going forward, the company may increase its manufacturing capacity by adding looms which is expected to be funded in a prudent mix of debt and internal accruals.

## Rating sensitivities

**Positive factors –** The ratings may be upgraded if the company is able to register a significant growth in revenues while maintaining its comfortable debt coverage metrics and liquidity position on sustained basis.

**Negative factors –** The ratings may be downgraded if a significant decline in sales and profitability materially impacts the company's debt coverage indicators and liquidity position. Any larger-than-planned debt-funded capex, adversely impacting the financial profile and liquidity position, would be a negative factor. Specific credit metric that could lead to a rating downgrade include weakening of return on capital employed to below 15% on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Indian Textiles Industry – Fabric<br>Rating Approach - Consolidation |
| **Parent/Group support** | Not applicable |
| **Consolidation/Standalone** | The ratings are based on the consolidated financial profile of OEL. As on March 31, 2023, OEL had one subsidiary and one associate company, which are enlisted in Annexure-II. |

## About the company

Incorporated in 1983 as a private limited company, OEL was reconstituted as a public limited company in 1994. It is currently headed by Mr. Pankaj Seth and Ms. Anisha Seth, who acquired the company in 2004. OEL is listed on the Bombay Stock Exchange and the National Stock Exchange. It manufactures and exports fancy fabrics and operates across multiple verticals in the value-added fabric market, from women's apparel to Christmas crafts and home decor, with special interests in occasion-specific fabrics and finished products. The company is headquartered in Mumbai (Maharashtra) with manufacturing facilities in Surat and Valsad (Gujarat), and in Thane (Maharashtra).

### Key financial indicators

| OEL Consolidated | FY2022 (Audited) | FY2023 (Audited) | Q1 FY2024 (Provisional) |
|---|---|---|---|
| **Operating income** | 128.5 | 196.6 | 58.4 |
| **PAT** | 15.2 | 31.0 | 11.7 |
| **OPBDIT/OI** | 25.0% | 28.1% | 32.2% |
| **PAT/OI** | 11.8% | 15.8% | 20.1% |
| **Total outside liabilities/Tangible net worth (times)** | 0.4 | 0.3 | - |
| **Total debt/OPBDIT (times)** | 1.4 | 0.6 | - |
| **Interest coverage (times)** | 16.5 | 16.3 | 24.1 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore*

**Status of non-cooperation with previous CRA:** OEL did not provide requisite information to CRISIL needed to conduct its surveillance rating process and was therefore classified as 'Issuer not-cooperating'. Based on the best available information with the credit rating agency, CRISIL has reaffirmed the ratings at 'CRISIL B/Stable/CRISIL A4 (Issuer Not Cooperating) for Rs. 57.83-crore bank facilities of OEL on October 12, 2022.

**Any other information: None**

## Rating history for past three years

| | Instrument | Current rating (FY2024) | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as of Jun 30, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
| | | | | | Sept 18, 2023 | Jul 21, 2022 | Apr 07, 2021 | Aug 21, 2020 |
| **1** | **Fund-based - Term Loans** | Long term | 35.50 | 23.12 | **[ICRA]A (Stable)** | **[ICRA]A-(Stable)** | **[ICRA]A- (Stable)** | **[ICRA]A (Negative)** |
| **2** | **Long-term Fund-based - Cash Credit** | Long term | - | -- | **-** | **[ICRA]A-(Stable)** | **[ICRA]A- (Stable)** | **[ICRA]A (Negative)** |
| **3** | **Long-term / Short-term Fund-based – Cash Credit** | Long term and short term | 30.00 | 6.62 | **[ICRA]A (Stable)/ [ICRA]A1** | **-** | **-** | **-** |
| **4** | **Short-term Non-fund based** | Short term | - | -- | **-** | **[ICRA]A2+** | **[ICRA]A2+** | **[ICRA]A1** |
| **5** | **Long-term/Short-term Unallocated Limits** | Long term and short term | - | -- | **-** | **[ICRA]A- (Stable)/ [ICRA]A2+** | **[ICRA]A- (Stable) /[ICRA]A2+** | **[ICRA]A (Negative) /[ICRA]A1** |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long-term Fund-based - Term Loans | Simple |
| Long-term / Short-term Fund-based – Cash Credit | Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

## Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| **NA** | **Term Loan** | FY2020 | 8.0-8.8% | FY2027 | 35.50 | [ICRA]A (Stable) |
| **NA** | **Cash Credit** | NA | NA | NA | 30.00 | [ICRA]A (Stable)/[ICRA]A1 |

*Source: Company*

[*Please click here to view details of lender-wise facilities rated by ICRA*]

## Annexure II: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| Orbit Exports Limited | Rated Entity | Full Consolidation |
| Orbit Inc | Subsidiary | Full Consolidation |
| Rainbow Line Trading LLC | Associate | Proportionate Consolidation |

*Source: Company data*

## ANALYST CONTACTS


**Jayanta Roy**
+91 33 7150 1100
jayanta@icraindia.com

**Priyesh Ruparelia**
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

**Sakshi Suneja**
+91 22 6114 3349
sakshi.suneja@icraindia.com

**Brinda Goradia**
+91 22 6169 3327
brinda.goradia@icraindia.com

**Rishabh Mundada**
+91 20 6606 9920
rishabh.mundada@icraindia.com


## RELATIONSHIP CONTACT


**L. Shivakumar**
+91 22 6114 3406
shivakumar@icraindia.com


## MEDIA AND PUBLIC RELATIONS CONTACT


**Ms. Naznin Prodhani**
Tel: +91 124 4545 860
communications@icraindia.com


## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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# ICRA Limited

## Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

## Branches